

INTERNATIONAL SPECIALTY HOLDINGS INC

FORM 10-Q (Quarterly Report)

Filed 11/17/2004 For Period Ending 10/3/2004

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549**

FORM 10-Q

(Mark One)

**/X/ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended OCTOBER 3, 2004

OR

**// TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934**

Commission File Number 333-82822

INTERNATIONAL SPECIALTY HOLDINGS INC.

(Exact name of registrant as specified in its charter)

DELAWARE
(State or Other Jurisdiction of
Incorporation or Organization)

22-3807354
(IRS Employer
Identification No.)

300 DELAWARE AVENUE, SUITE 303, WILMINGTON, DELAWARE
(Address of principal executive offices)

19801
(Zip Code)

(302) 427-5715
(Registrant's telephone number, including area code)

NONE
(Former Name, Former Address and Former Fiscal Year,
if Changed Since Last Report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes /X/ No //

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). Yes // No /X/

As of November 16, 2004, 100 shares of the registrant's common stock (par value \$.001 per share) were outstanding. There is no trading market for the common stock of the registrant. No shares of the registrant were held by non-affiliates.

PART I - FINANCIAL INFORMATION

ITEM 1 - FINANCIAL STATEMENTS

INTERNATIONAL SPECIALTY HOLDINGS INC. CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

	THIRD QUARTER ENDED		NINE MONTHS ENDED	
	OCTOBER 3, 2004	SEPT. 28, 2003*	OCTOBER 3, 2004*	SEPT. 28, 2003*
	(THOUSANDS)			
Net sales.....	\$ 295,572	\$ 217,821	\$ 898,183	\$ 679,925
Cost of products sold.....	(206,168)	(143,712)	(607,291)	(443,520)
Selling, general and administrative..	(50,041)	(42,991)	(152,060)	(131,743)
Other operating charges.....	-	-	-	(1,451)
Amortization of intangible assets....	(336)	(144)	(775)	(432)
Operating income.....	39,027	30,974	138,057	102,779
Interest expense.....	(19,821)	(18,858)	(58,346)	(57,799)
Investment income (loss), net.....	(5,268)	(5,407)	(2,361)	21,477
Other expense, net.....	(1,853)	(2,026)	(6,538)	(2,114)
Income before income taxes and cumulative effect of change in accounting principle.....	12,085	4,683	70,812	64,343
Income taxes.....	(4,230)	(1,653)	(24,221)	(21,952)
Income before cumulative effect of change in accounting principle.....	7,855	3,030	46,591	42,391
Cumulative effect of change in accounting principle, net of income tax benefit of \$600.....	-	-	-	(1,021)
Net income.....	\$ 7,855	\$ 3,030	\$ 46,591	\$ 41,370

* Restated - see Note 1.

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

**INTERNATIONAL SPECIALTY HOLDINGS INC.
CONSOLIDATED BALANCE SHEETS (UNAUDITED)**

	OCTOBER 3, 2004	DECEMBER 31, 2003*
	-----	-----
	(THOUSANDS)	
ASSETS		
Current Assets:		
Cash and cash equivalents.....	\$ 66,810	\$ 157,637
Investments in trading securities.....	21,951	126,307
Investments in available-for-sale securities.....	296,473	42,165
Accounts receivable, trade, less allowance of \$7,050 and \$5,938 at October 3, 2004 and December 31, 2003, respectively.....	138,456	100,586
Accounts receivable, other.....	33,851	21,158
Receivables from related parties.....	16,772	12,085
Inventories.....	205,249	205,273
Deferred income tax assets.....	27,317	25,701
Prepaid expenses.....	5,784	5,955
	-----	-----
Total Current Assets.....	812,663	696,867
Property, plant and equipment, net.....	611,700	599,877
Goodwill, net of accumulated amortization of \$180,486	337,398	331,101
Intangible assets, net of accumulated amortization of \$1,925 and \$1,150 at October 3, 2004 and December 31, 2003, respectively.....	18,761	8,866
Long-term loans receivable from related party.....	95,725	95,546
Other assets.....	67,618	61,786
	-----	-----
Total Assets.....	\$1,943,865	\$1,794,043
	=====	=====
LIABILITIES AND SHAREHOLDER'S EQUITY		
Current Liabilities:		
Short-term debt.....	\$ 9,811	\$ 68
Current maturities of long-term debt.....	4,439	4,072
Accounts payable.....	83,644	66,505
Accrued liabilities.....	83,317	95,061
Income taxes payable.....	24,541	32,579
	-----	-----
Total Current Liabilities.....	205,752	198,285
	-----	-----
Long-term debt less current maturities.....	873,399	824,304
	-----	-----
Deferred income tax liabilities.....	113,865	88,504
	-----	-----
Other liabilities.....	136,823	126,736
	-----	-----
Shareholder's Equity:		
Common stock, \$.001 par value per share; 100 shares issued and outstanding.....	-	-
Additional paid-in capital.....	642,267	642,267
Accumulated deficit.....	(40,970)	(87,561)
Accumulated other comprehensive income.....	12,729	1,508
	-----	-----
Total Shareholder's Equity.....	614,026	556,214
	-----	-----
Total Liabilities and Shareholder's Equity.....	\$1,943,865	\$1,794,043
	=====	=====

* Restated - see Note 1.

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

**INTERNATIONAL SPECIALTY HOLDINGS INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)**

	NINE MONTHS ENDED	
	OCTOBER 3, 2004*	SEPT. 28, 2003*
	(THOUSANDS)	
Cash provided by (used in) operating activities:		
Net income.....	\$ 46,591	\$ 41,370
Adjustments to reconcile net income to net cash provided by operating activities:		
Cumulative effect of change in accounting principle....	-	1,021
Depreciation.....	49,634	45,176
Amortization of intangible assets.....	775	432
Deferred income taxes.....	15,321	21,030
Unrealized losses on securities.....	52,117	5,185
Increase in working capital items.....	(41,897)	(41,566)
Purchases of trading securities.....	(416,103)	(273,709)
Proceeds from sales of trading securities.....	473,853	439,707
Proceeds (repayments) from sale of accounts receivable....	3,930	(2,560)
Change in receivable from/payable to related parties.....	(4,687)	(44,517)
Other, net.....	1,653	2,244
Net cash provided by operating activities.....	181,187	193,813
Cash provided by (used in) investing activities:		
Capital expenditures and acquisitions.....	(85,083)	(55,739)
Purchases of available-for-sale securities.....	(375,052)	(66,259)
Proceeds from sales of available-for-sale securities.....	132,188	121,382
Net cash used in investing activities.....	(327,947)	(616)
Cash provided by (used in) financing activities:		
Net increase (decrease) in short-term debt.....	9,743	(39,658)
Proceeds from issuance of debt.....	31,188	-
Increase in borrowings under revolving credit facility....	20,734	-
Repayments of long-term debt.....	(3,261)	(1,663)
Increase in loans to related party.....	(179)	(95,295)
Debt issuance costs.....	(2,124)	-
Capital contribution from parent company.....	-	1,451
Net cash provided by (used in) financing activities.....	56,101	(135,165)
Effect of exchange rate fluctuations on cash and cash equivalents.....	(168)	3,043
Net change in cash and cash equivalents.....	(90,827)	61,075
Cash and cash equivalents, beginning of period.....	157,637	35,060
Cash and cash equivalents, end of period.....	\$ 66,810	\$ 96,135
	=====	=====

* Restated - see Note 1.

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

INTERNATIONAL SPECIALTY HOLDINGS INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED) - (CONTINUED)

	NINE MONTHS ENDED	
	OCTOBER 3, 2004*	SEPT. 28, 2003*
	(THOUSANDS)	
Supplemental Cash Flow Information:		
Cash paid during the period for:		
Interest (net of amount capitalized).....	\$ 63,690	\$ 60,956
Income taxes (including taxes paid pursuant to the Tax Sharing Agreement).....	14,348	3,732
Acquisitions:		
Estimated fair market value of assets acquired.....	\$ 30,421	\$ 24,206
Purchase price of acquisitions.....	27,280	13,391
Liabilities assumed.....	\$ 3,141	\$ 10,815
	=====	=====

* Restated - see Note 1.

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

The consolidated financial statements for International Specialty Holdings Inc. (the "Company") reflect, in the opinion of management, all adjustments necessary to present fairly the financial position of the Company and its consolidated subsidiaries at October 3, 2004, and the results of operations and cash flows for the three and nine month periods ended October 3, 2004 and September 28, 2003. All adjustments are of a normal recurring nature. Certain amounts in the 2003 consolidated financial statements have been reclassified to conform to the 2004 presentation. These consolidated financial statements should be read in conjunction with the annual consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2003 (the "2003 Form 10-K").

NOTE 1. CAPITAL CONTRIBUTION FROM PARENT COMPANY

Effective July 28, 2003, the Company's parent company, International Specialty Products Inc. ("ISP"), acquired, through a wholly owned limited partnership, ISP Synthetic Elastomers LP, certain assets of the synthetic rubber business of Ameripol Synpol Corporation. The synthetic elastomers business manufactures and sells emulsified styrene butadiene rubber and related products. Effective August 30, 2004, ISP contributed the synthetic elastomers business to the capital of the Company. Accordingly, the Company's consolidated financial statements include the results of the synthetic elastomers business from the date of its acquisition by ISP. The synthetic elastomers business is being reported as a separate business segment (see Note 13). The consolidated financial statements as of December 31, 2003 and for the third quarter of 2003 and the first nine months of 2003 and 2004 have been restated to include the assets and liabilities and the results of operations of the synthetic elastomers business from July 28, 2003. As of December 31, 2003 and August 30, 2004, the effective date of the contribution, consolidated total assets increased by \$18.3 and \$46.5 million, respectively. For the third quarter and first nine months of 2003, the synthetic elastomers business recorded sales of \$2.7 million and a net loss of \$0.9 million. The third quarter and first nine months of 2004 include sales of \$42.8 and \$116.8 million, respectively, and net income of \$0.2 and \$3.2 million, respectively.

NOTE 2. RELATED PARTY TRANSACTION

In August 2004, the Company entered into a loan agreement with ISP pursuant to which the Company will allow ISP to borrow from time to time up to \$350.0 million with interest at the rate of 3.74% per annum on the outstanding principal balance. Commencing in 2005, payment of interest is due in arrears on the outstanding principal balance on January 31 and July 31 for each year thereafter. This facility shall terminate August 2007, unless terminated earlier. ISP has also agreed to enter into a loan agreement as the lender with an entity controlled by Samuel J. Heyman on terms substantially the same as the loan agreement between the Company and ISP. While, as of October 3, 2004 there were no borrowings outstanding under either facility, during the third quarter there was an outstanding balance as of any one time of as much as \$27.4 million.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - (CONTINUED)

NOTE 3. CREDIT FACILITIES

On April 2, 2004, the Company's wholly owned subsidiary, ISP Chemco Inc. ("ISP Chemco"), and three of its wholly owned subsidiaries, amended and restated its June 2001 \$450.0 million senior secured credit facilities (the "Senior Credit Facilities"). The Senior Credit Facilities provide a \$250.0 million term loan with a maturity in March 2011, which replaced the \$225.0 million term loan that was due to mature in June 2008. In connection therewith, the Company borrowed an additional \$31.2 million to bring the outstanding balance of the term loan to \$250.0 million. The Senior Credit Facilities reduced the margin-based interest rate for term loan borrowings and amended financial covenant ratios, including the elimination of the minimum adjusted net worth covenant. For additional information relating to the Senior Credit Facilities, reference is made to Note 14 to consolidated financial statements contained in the 2003 Form 10-K.

On April 15, 2004, the \$225.0 million revolving credit facility under the Senior Credit Facilities, which was to terminate in June 2006, was reduced to \$200.0 million, including a borrowing capacity not in excess of \$50.0 million for letters of credit, and the maturity was extended to April 15, 2009. In addition, the margin-based interest rate for revolving credit borrowings was reduced.

In April 2004, ISP Synthetic Elastomers LP entered into a \$25.0 million Financing Agreement (the "Credit Facility"), which can be increased to \$35.0 million at our option. The initial borrowings under the Credit Facility were primarily used to partially repay intercompany advances and for working capital purposes. The Credit Facility has a maturity date of April 13, 2009, subject to certain conditions, and is secured by a lien upon substantially all of the assets of ISP Synthetic Elastomers LP. Availability under the Credit Facility is based upon Eligible Accounts Receivable and Eligible Inventory, as defined in the Credit Facility, and includes a borrowing capacity not in excess of \$10.0 million for letters of credit. The Credit Facility bears interest at a floating rate based upon the Prime Rate or LIBOR, each as defined in the Credit Facility. The Credit Facility does not contain any required financial covenants as long as a minimum availability requirement is met. Borrowings outstanding under the Credit Facility, which are included in long-term debt, amounted to \$20.7 million at October 3, 2004.

NOTE 4. ACQUISITIONS

During the first quarter of 2004, ISP Chemco completed three acquisitions in Europe to further enhance the Company's global specialty chemicals business. The purchase price of the assets and businesses acquired totaled \$27.3 million in cash.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - (CONTINUED)

NOTE 5. NEW ACCOUNTING STANDARDS

In December 2003, the Financial Accounting Standards Board ("FASB") issued a revised FASB Interpretation ("FIN") No. 46R, "Consolidation of Variable Interest Entities," replacing FIN 46 which had originally been issued in January 2003. FIN No. 46R addresses how a business enterprise should evaluate whether it has a controlling financial interest in an entity through means other than voting rights and accordingly should consolidate the entity. The Company will be required to apply FIN 46R to variable interests in variable interest entities created after December 31, 2003. The Company does not currently have an interest in a variable interest entity. Therefore, FIN 46R will not have an immediate impact on the Company's consolidated financial statements.

In May 2004, the FASB issued FASB Staff Position ("FSP") No. FAS 106-2 to provide guidance on accounting for the effects of the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the "Act") for employers that sponsor postretirement health care plans which provide prescription drug benefits. In addition, the FSP requires those employers to provide certain disclosures in their financial statements regarding the effect of the Act and the related subsidy on postretirement health obligations and net periodic postretirement benefit cost. The Company adopted the provisions of FSP FAS No. 106-2 effective for the quarterly period beginning July 5, 2004. The impact on the Company's financial statements was insignificant.

NOTE 6. INVESTMENT INCOME (LOSS)

Investment income (loss) for the first nine months of 2004 includes a \$5.5 million other than temporary impairment charge related to an available-for-sale equity security held in the Company's investment portfolio. The Company periodically reviews investment securities for impairment when the cost basis of a security exceeds the market value.

INTERNATIONAL SPECIALTY HOLDINGS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - (CONTINUED)

NOTE 7. COMPREHENSIVE INCOME

	Third Quarter Ended		Nine Months Ended	
	October 3, 2004	Sept. 28, 2003	October 3, 2004	Sept. 28, 2003
	(Thousands)			
Net income.....	\$ 7,855	\$ 3,030	\$ 46,591	\$ 41,370
Other comprehensive income (loss), net of tax:				
Change in unrealized gains (losses) on available-for-sale securities:				
Unrealized holding gains arising during the period, net of income tax provision of \$(3,254), \$(5,513), \$(4,756) and \$(5,693), respectively.....	6,835	10,392	9,270	8,725
Less: reclassification adjustment for gains (losses) included in net income, net of income tax (provision) benefit of \$(1,302), \$684, \$267 and \$(168), respectively.....	2,560	(1,658)	(2,662)	(563)
Total change for the period.....	4,275	12,050	11,932	9,288
Foreign currency translation adjustment.....	2,807	(239)	(711)	9,411
Total other comprehensive income.....	7,082	11,811	11,221	18,699
Comprehensive income.....	\$ 14,937	\$ 14,841	\$ 57,812	\$ 60,069
	=====	=====	=====	=====

Changes in the components of accumulated other comprehensive income for the nine months ended October 3, 2004 are as follows:

	Unrealized Gains (Losses) On Available- for-Sale Securities	Cumulative Foreign Currency Translation Adjustment	Additional Minimum Pension Liability Adjustment	Accumulated Other Comprehensive Income
	(Thousands)			
Balance, December 31, 2003...	\$ (1,405)	\$ 9,033	\$ (6,120)	\$ 1,508
Change for the period.....	11,932	(711)	-	11,221
Balance, October 3, 2004.....	\$ 10,527	\$ 8,322	\$ (6,120)	\$ 12,729
	=====	=====	=====	=====

INTERNATIONAL SPECIALTY HOLDINGS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - (CONTINUED)

NOTE 8. INVENTORIES

Inventories comprise the following:

	October 3, 2004	December 31, 2003
	-----	-----
	(Thousands)	
Finished goods.....	\$118,836	\$126,227
Work-in-process.....	38,544	36,415
Raw materials and supplies....	47,869	42,631
	-----	-----
Inventories.....	\$205,249	\$205,273
	=====	=====

At October 3, 2004 and December 31, 2003, \$64.0 and \$62.7 million, respectively, of domestic inventories were valued using the LIFO method. If the FIFO inventory method had been used for these inventories, the value of inventories would have been \$6.7 and \$4.2 million higher at October 3, 2004 and December 31, 2003, respectively.

NOTE 9. GOODWILL AND INTANGIBLE ASSETS

The following schedule reconciles the changes in the carrying amount of goodwill, by business segment, for the nine months ended October 3, 2004.

	Specialty Chemicals	Industrial Chemicals	Mineral Products	Synthetic Elastomers	Total Goodwill
	-----	-----	-----	-----	-----
	(Thousands)				
Balance, December 31, 2003.....	\$ 279,562	\$ -	\$ 51,539	\$ -	\$ 331,101
Acquisitions and valuation adjustment.....	6,212	-	-	-	6,212
Translation adjustment.....	85	-	-	-	85
	-----	-----	-----	-----	-----
Balance, October 3, 2004.....	\$ 285,859	\$ -	\$ 51,539	\$ -	\$ 337,398
	=====	=====	=====	=====	=====

The following is information as of October 3, 2004 and December 31, 2003 related to the Company's acquired intangible assets:

	Range of Amortizable Lives	October 3, 2004	December 31, 2003
	-----	Gross Carrying Amount	Gross Carrying Amount
		-----	-----
		Accumulated Amortization	Accumulated Amortization
		-----	-----
		(Dollars in Thousands)	
Intangible assets subject to amortization:			
Patents.....	5- 20 years	\$ 669	\$ 669
Formulations.....	5- 10 years	(155)	(113)
Unpatented technology.....	10-15 years	2,740	-
Customer base.....	10-15 years	(203)	-
Non-compete agreements.....	2- 5 years	1,100	-
EPA registrations.....	5 years	(44)	-
		2,348	-
		3,419	1,571
		(1,327)	(971)
		166	166
		(91)	(66)
		-----	-----
Total amortizable intangible assets.....		10,442	2,406
		(1,925)	(1,150)
		-----	-----
Intangible assets not subject to amortization:			
Trademarks.....		5,596	2,962
EPA registrations.....		4,648	4,648
		-----	-----
Total unamortized intangible assets.....		10,244	7,610
		-----	-----
Total intangible assets.....		\$ 20,686	\$ 10,016
		(1,925)	(1,150)
		=====	=====

INTERNATIONAL SPECIALTY HOLDINGS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - (CONTINUED)

NOTE 9. GOODWILL AND INTANGIBLE ASSETS - (CONTINUED)

Estimated amortization expense: Year ended December 31,	(Thousands)

2004.....	\$ 1,100
2005.....	1,301
2006.....	1,301
2007.....	1,037
2008.....	1,037

NOTE 10. ASSET RETIREMENT OBLIGATIONS

The Company adopted Statement of Financial Accounting Standards ("SFAS") No. 143, "Accounting for Asset Retirement Obligations," effective January 1, 2003. SFAS No. 143 established accounting and reporting standards for legal obligations associated with the retirement of long-lived assets that result from the acquisition, construction, development and the normal operation of a long-lived asset. The Company holds long-lived assets that have legal obligations associated with their retirement, including deep wells that require capping, minerals quarries that require reclamation and other plant assets subject to certain environmental regulations. As a result of adopting SFAS No. 143, effective January 1, 2003, the Company recognized an after-tax charge of \$1.0 million (\$1.6 million before an income tax benefit of \$0.6 million) as the cumulative effect of a change in accounting principle, and recorded an asset retirement obligation of \$1.9 million and a net increase in property, plant and equipment of \$0.3 million.

NOTE 11. OTHER OPERATING CHARGES

In February 2003, the Company's parent company, ISP, completed a going private transaction. As a result, the Company's stock-based compensation plans were terminated and payments were made in accordance with the terms of that transaction. Accordingly, holders of approximately 2.7 million vested, in-the-money stock options outstanding and exercisable on February 28, 2003 received cash amounts aggregating \$1.5 million that were recorded as compensation expense in the first quarter of 2003.

NOTE 12. BENEFIT PLANS

Defined Benefit Plans

The Company provides a noncontributory defined benefit retirement plan for certain hourly employees in the United States (the "Hourly Retirement Plan"). Benefits under this plan are based on stated amounts for each year of service. The Company's funding policy is consistent with the minimum funding requirements of ERISA.

ISP Marl GmbH, a wholly owned German subsidiary of the Company, provides a noncontributory defined benefit retirement plan for its hourly and salaried

INTERNATIONAL SPECIALTY HOLDINGS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - (CONTINUED)

NOTE 12. BENEFIT PLANS - (CONTINUED)

employees (the "ISP Marl Plan"). Benefits under this plan are based on average earnings over each employee's career with the Company.

The Company's net periodic pension cost for the third quarter and first nine months of 2004 and 2003 for the Hourly Retirement Plan included the following components:

	Third Quarter Ended		Nine Months Ended	
	October 3, 2004	Sept. 28, 2003	October 3, 2004	Sept. 28, 2003
	(Thousands)			
Service cost.....	\$ 69	\$ 60	\$ 207	\$ 180
Interest cost.....	523	525	1,569	1,574
Expected return on plan assets.....	(736)	(716)	(2,208)	(2,148)
Amortization of actuarial losses.....	126	98	378	294
Amortization of unrecognized prior service cost.....	60	69	180	208
Net periodic pension cost.....	\$ 42	\$ 36	\$ 126	\$ 108
	=====	=====	=====	=====

The Company's net periodic pension cost for the third quarter and first nine months of 2004 and 2003 for the ISP Marl Plan included the following components:

	Third Quarter Ended		Nine Months Ended	
	October 3, 2004	Sept. 28, 2003	October 3, 2004	Sept. 28, 2003
	(Thousands)			
Service cost.....	\$ 23	\$ 20	\$ 69	\$ 60
Interest cost.....	48	39	144	117
Amortization of unrecognized prior service cost.....	1	1	3	3
Net periodic pension cost.....	\$ 72	\$ 60	\$ 216	\$ 180
	=====	=====	=====	=====

Postretirement Medical and Life Insurance

The Company generally does not provide postretirement medical and life insurance benefits, although it subsidizes such benefits for certain employees and certain retirees.

The net periodic postretirement benefit (income) cost for the third quarter and first nine months of 2004 and 2003 included the following components:

	Third Quarter Ended		Nine Months Ended	
	October 3, 2004	Sept. 28, 2003	October 3, 2004	Sept. 28, 2003
	(Thousands)			
Service cost.....	\$ (9)	\$ 32	\$ 8	\$ 96
Interest cost.....	75	156	281	467
Amortization of actuarial (gains) losses.	(33)	7	(66)	21
Amortization of unrecognized prior service cost.....	(71)	(71)	(213)	(213)
Net periodic postretirement benefit (income) cost.....	\$ (38)	\$ 124	\$ 10	\$ 371
	=====	=====	=====	=====

INTERNATIONAL SPECIALTY HOLDINGS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - (CONTINUED)

NOTE 13. BUSINESS SEGMENT INFORMATION

	Third Quarter Ended		Nine Months Ended	
	October 3, 2004	Sept. 28, 2003	October 3, 2004	Sept. 28, 2003
	(Thousands)			
Net sales:				
Specialty Chemicals.....	\$ 168,725	\$ 153,464	\$ 532,979	\$ 470,378
Industrial Chemicals.....	50,521	35,047	148,283	128,574
Synthetic Elastomers (1).....	42,799	2,696	116,845	2,696
Mineral Products (2).....	33,527	26,614	100,076	78,277
Net sales.....	\$ 295,572	\$ 217,821	\$ 898,183	\$ 679,925
	=====	=====	=====	=====
Operating income (loss):				
Specialty Chemicals.....	\$ 33,760	\$ 29,760	\$ 121,564	\$ 96,697
Industrial Chemicals.....	(736)	(1,221)	(2,322)	(5,342)
Synthetic Elastomers (1).....	679	(1,198)	5,347	(1,198)
Mineral Products.....	5,528	3,496	13,580	12,233
Total segment operating income.....	39,231	30,837	138,169	102,390
Unallocated corporate office.....	(204)	137	(112)	389
Total operating income.....	39,027	30,974	138,057	102,779
Interest expense, investment income (loss) and other expense, net	(26,942)	(26,291)	(67,245)	(38,436)
Income before income taxes and cumulative effect of change in accounting principle..	\$ 12,085	\$ 4,683	\$ 70,812	\$ 64,343
	=====	=====	=====	=====

(1) See Note 1.

(2) Includes sales to Building Materials Corporation of America, an affiliate, and its subsidiaries, of \$24.2 and \$19.5 million for the third quarter of 2004 and 2003, respectively, and \$73.3 and \$59.2 million for the first nine months of 2004 and 2003, respectively.

NOTE 14. CONTINGENCIES

For information regarding contingencies, reference is made to Note 21 to consolidated financial statements contained in the 2003 Form 10-K.

Environmental Litigation

The Company, together with other companies, is a party to a variety of proceedings and lawsuits involving environmental matters ("Environmental Claims") under the Comprehensive Environmental Response Compensation and Liability Act, Resource Conservation and Recovery Act and similar state laws, in which recovery is sought for the cost of cleanup of contaminated sites or remedial obligations are imposed. A number of these Environmental Claims are in the early stages or have been dormant for protracted periods.

While the Company cannot predict whether adverse decisions or events can occur in the future, in the opinion of the Company's management, the resolution

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - (CONTINUED)

NOTE 14. CONTINGENCIES - (CONTINUED)

of the Environmental Claims should not be material to the business, liquidity, results of operations, cash flows or financial position of the Company. However, adverse decisions or events, particularly as to increases in remedial costs, discovery of new contamination, assertion of natural resource damages, plans for development of the Company's Linden, New Jersey property, and the liability and the financial responsibility of the Company's insurers and of the other parties involved at each site and their insurers, could cause the Company to increase its estimate of its liability or decrease its estimate of insurance recoveries in respect of those matters. It is not currently possible to estimate the amount or range of any additional liability.

Tax Claim Against G-I Holdings Inc.

The predecessor of ISP and certain of its domestic subsidiaries were parties to tax sharing agreements with members of a consolidated group for Federal income tax purposes that included G-I Holdings Inc. (the "G-I Holdings Group") in certain prior years. Until January 1, 1997, ISP and its domestic subsidiaries were included in the consolidated Federal income tax returns of the G-I Holdings Group and, accordingly, would be severally liable for any tax liability of the G-I Holdings Group in respect of those prior years. Those tax sharing agreements are no longer applicable with respect to the tax liabilities of ISP for periods subsequent to January 1, 1997, because neither the Company nor any of its domestic subsidiaries are members of the G-I Holdings Group for periods after January 1, 1997. In January 2001, G-I Holdings filed a voluntary petition for reorganization under Chapter 11 of the U.S. Bankruptcy Code due to its asbestos-related bodily injury claims relating to the inhalation of asbestos fiber.

On September 15, 1997, G-I Holdings received a notice from the Internal Revenue Service ("IRS") of a deficiency in the amount of \$84.4 million (after taking into account the use of net operating losses and foreign tax credits otherwise available for use in later years) in connection with the formation in 1990 of Rhone-Poulenc Surfactants and Specialties, L.P. (the "surfactants partnership"), a partnership in which G-I Holdings held an interest. On September 21, 2001, the IRS filed a proof of claim with respect to such deficiency in the G-I Holdings bankruptcy against G-I Holdings and ACI Inc., a subsidiary of G-I Holdings which also held an interest in the surfactants partnership and also has filed a voluntary petition for reorganization under Chapter 11 of the U.S. Bankruptcy Code. If the proof of claim is sustained, ISP and/or certain of its subsidiaries together with G-I Holdings and several current and former subsidiaries of G-I Holdings would be severally liable for taxes and interest in the amount of approximately \$291 million, computed as of October 3, 2004. On May 7, 2002, G-I Holdings, together with ACI Inc., filed an objection to the proof of claim, which objection will be heard by the United States District Court for the District of New Jersey overseeing the G-I Holdings bankruptcy. G-I Holdings has advised the Company that it believes that it will prevail in this tax matter involving the surfactants partnership, although there can be no assurance in this regard. The Company believes that the ultimate disposition of this matter will not have a material adverse effect on its business, financial position or results of operations. For additional information relating to G-I Holdings, reference is

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - (CONTINUED)

NOTE 14. CONTINGENCIES - (CONTINUED)

made to Notes 8 and 21 to consolidated financial statements contained in the 2003 Form 10-K.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Unless otherwise indicated by the context, "we," "us" and "our" refer to International Specialty Holdings Inc. and its consolidated subsidiaries.

CRITICAL ACCOUNTING POLICIES

There have been no significant changes in our critical accounting policies during the first nine months of 2004. For a discussion of our critical accounting policies, reference is made to the "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2003.

RESULTS OF OPERATIONS - THIRD QUARTER 2004 COMPARED WITH

THIRD QUARTER 2003

Overview

Effective July 28, 2003, our parent company, International Specialty Products Inc., which we refer to as "ISP," acquired, through a wholly owned limited partnership, ISP Synthetic Elastomers LP, certain assets of the synthetic rubber business of Ameripol Synpol Corporation. Effective August 30, 2004, ISP contributed the synthetic elastomers business to our capital. Accordingly, our consolidated financial statements have been restated to include the results of the synthetic elastomers business from the date of its acquisition by ISP (see Note 1 to consolidated financial statements).

We recorded net income of \$7.9 million for the third quarter of 2004 compared with net income of \$3.0 million in the third quarter of 2003. The improved results for the third quarter of 2004 were attributable to significantly higher operating income.

Net Sales. Net sales by business segment for the third quarter of 2004 and 2003 were:

	Third Quarter Ended	
	October 3, 2004	Sept. 28, 2003
	-----	-----
	(Millions)	
Specialty chemicals.....	\$ 168.7	\$ 153.5
Industrial chemicals.....	50.5	35.0
Synthetic elastomers.....	42.8	2.7
Mineral products.....	33.6	26.6
	-----	-----
Net sales.....	\$ 295.6	\$ 217.8
	=====	=====

Net sales for the third quarter of 2004 were \$295.6 million compared with \$217.8 million in the third quarter of 2003. The \$77.8 million (36%) increase in sales resulted primarily from the synthetic elastomers business (\$42.8 million), acquired during the third quarter of 2003, in addition to higher unit volumes in all other business segments (totaling \$32.4 million) and the favorable impact of the weaker U.S. dollar (\$5.2 million), primarily in

Europe. Specialty chemicals sales also benefited from the three acquisitions made during the first quarter of 2004.

Gross Margin. Our gross margin in the third quarter of 2004 was 30.2% compared with 34.0% in the third quarter of 2003. The overall margin was reduced due to the lower margin synthetic elastomers business which had a gross margin of 7.7% for the third quarter of 2004. The gross margin for the specialty chemicals segment increased to 42.4% in the third quarter of 2004 from 41.5% in the same period of 2003 as a result of the favorable impact of higher volumes and the weaker U.S. dollar, partially offset by higher manufacturing costs, while the gross margin for the mineral products segment increased to 26.4% from 23.0% in the third quarter of 2003 as a result of favorable pricing and the impact of higher unit volumes. The gross margin for the industrial chemicals segment decreased to 11.2% from 13.9% in the third quarter of 2003 primarily due to the adverse impact of the stronger Euro on European-based manufacturing costs.

Selling, General and Administrative. Selling, general and administrative expenses increased 16% in the third quarter of 2004 to \$50.0 million from \$43.0 million in the third quarter of 2003, however, as a percent of sales, decreased to 16.9% from 19.7% in the third quarter of 2003, due mainly to the inclusion of operating expenses for the synthetic elastomers business, for which operating expenses represented only 6.0% of sales. The increase in selling, general and administrative expenses in the third quarter of 2004 related primarily to higher selling and distribution costs as a result of the higher sales levels.

Operating Income. Operating income (loss) by business segment for the third quarter of 2004 and 2003 was:

	Third Quarter Ended	
	October 3, 2004	Sept. 28, 2003
	(Millions)	
Specialty chemicals.....	\$ 33.8	\$ 29.8
Industrial chemicals.....	(0.7)	(1.2)
Synthetic elastomers.....	0.7	(1.2)
Mineral products.....	5.5	3.5
Total segment operating income.....	39.3	30.9
Unallocated corporate office items.....	(0.3)	0.1
Operating income.....	\$ 39.0	\$ 31.0
	=====	=====

Operating income for the third quarter of 2004 was \$39.0 million, a 26% increase compared with \$31.0 million in the third quarter of 2003. Operating income for the specialty chemicals segment was \$33.8 million for the third quarter of 2004, a 13% improvement compared with \$29.8 million in the third quarter of 2003. The improved results were attributable to higher unit volumes in the personal care product line and an improved product mix and manufacturing efficiencies achieved in the fine chemicals product line. Operating income for the specialty chemicals segment in the third quarter of 2004 was also favorably impacted by the weaker U.S. dollar and, to a lesser extent, by the contribution to income from the three specialty chemical niche acquisitions made during the first quarter of 2004 (see "-Liquidity and Financial Condition" below).

The industrial chemicals segment recorded an operating loss of \$0.7 million in the third quarter of 2004 compared with an operating loss of \$1.2 million in the third quarter of 2003. The results were attributable to

favorable unit volumes and pricing, partially offset by the adverse impact of the stronger Euro on European-based manufacturing costs.

Operating income for the synthetic elastomers segment was \$0.7 million in the third quarter of 2004 compared with an operating loss of \$1.2 million in the third quarter of 2003 after its acquisition when the business was in its start-up phase.

Operating income for the mineral products segment was \$5.5 million in the third quarter of 2004 compared with \$3.5 million in the third quarter of 2003. The 57% improvement in operating income from the third quarter of 2003 was due to higher unit volumes and favorable pricing, partially offset by increased manufacturing costs and higher freight and distribution expenses.

Interest Expense. Interest expense for the third quarter of 2004 was \$19.8 million compared with \$18.9 million in the same period in 2003. The higher interest expense was attributable to higher average borrowings (\$1.2 million impact), partially offset by lower average interest rates (\$0.3 million impact), both as a result of the refinancing of our senior secured credit facility in April 2004 (see "-Liquidity and Financial Condition" below).

Investment Income (Loss). Investment losses in the third quarter of 2004 were \$5.3 million compared with investment losses of \$5.4 million in the third quarter of 2003.

Other Expense, net. Other expense, net, comprises foreign exchange gains/losses resulting from the revaluation of foreign currency-denominated accounts receivable and payable as a result of changes in exchange rates, and other nonoperating items of expense. Other expense, net, was \$1.9 million in the third quarter of 2004 compared with \$2.0 million in the third quarter of 2003.

Income Taxes. In the third quarter of 2004, we recorded a provision for income taxes of \$4.2 million. Our effective tax rate for the third quarter of 2004 was 35.0%, which was consistent with an effective tax rate of 35.3% in the third quarter of 2003.

Business Segment Review

A discussion of operating results for each of our business segments follows. We operate our business through four reportable business segments:
specialty chemicals; industrial chemicals; synthetic elastomers; and mineral products.

Specialty Chemicals

Sales in the third quarter of 2004 were \$168.7 million compared with \$153.5 million in the same period in 2003. The 10% increase in sales was mainly attributable to higher unit volumes (\$15.1 million), primarily in the personal care and performance chemicals product lines. The favorable impact of the weaker U.S. dollar (\$3.6 million), primarily in Europe, also benefited sales. The personal care product line experienced strong volume growth in its skin care and oral care markets in Europe and North America. Sales for the performance chemicals, food and personal care product lines also benefited from the three acquisitions made during the first quarter of 2004.

Operating income for the specialty chemicals segment improved 13% to \$33.8 million for the third quarter of 2004 compared with \$29.8 million in the third quarter of 2003. The improved results were attributable to the favorable effect of higher unit volumes (totaling \$10.6 million), mainly in the personal care and performance chemicals product lines, and an improved product mix and manufacturing efficiencies achieved in the fine chemicals product line. Operating income for the specialty chemicals segment in the third quarter of 2004 was also favorably impacted by the weaker U.S. dollar (\$1.2 million) and, to a lesser extent, from the contribution to income from the three acquisitions made during the first quarter of 2004. Partially offsetting these favorable factors was unfavorable pricing (\$3.5 million) across all product lines and higher manufacturing costs in all product lines other than fine chemicals (totaling \$3.6 million).

Industrial Chemicals

Sales in the third quarter of 2004 were \$50.5 million compared with \$35.0 million in the third quarter of 2003. The 44% increase in sales resulted from higher unit volumes (\$12.5 million), favorable pricing (\$1.4 million) and by the favorable effect of the weaker U.S. dollar (\$1.6 million).

The industrial chemicals segment recorded an operating loss of \$0.7 million in the third quarter of 2004 compared with an operating loss of \$1.2 million in the third quarter of 2003. The results were attributable to the favorable impact of higher unit volumes and favorable pricing (totaling \$2.4 million), partially offset by the adverse impact of the stronger Euro on European-based manufacturing costs.

Synthetic Elastomers

The synthetic elastomers business was acquired by our parent company, ISP, in July 2003 and ISP contributed this business to our company effective August 30, 2004. The synthetic elastomers business manufactures and sells emulsified styrene butadiene rubber and related products. Since the date of its acquisition, we have expended nearly \$14 million for capital improvements for this business.

Sales for the synthetic elastomers business segment were \$42.8 million in the third quarter of 2004 compared with \$2.7 million in the third quarter of 2003 after the date of its acquisition. The synthetic elastomers business recorded operating income of \$0.7 million in the third quarter of 2004 compared with an operating loss of \$1.2 million in the third quarter of 2003 after its acquisition when the business was in its start-up phase.

Mineral Products

Sales for the mineral products segment for the third quarter of 2004 were \$33.6 million compared with \$26.6 million for the third quarter of 2003. The 26% increase was due to higher unit volumes (\$4.8 million) as a result of industry-wide growth and also favorable pricing (\$2.1 million). The sales growth included 24% higher sales to Building Materials Corporation of America, an affiliate which we refer to as "BMCA."

Operating income for the mineral products segment was \$5.5 million in the third quarter of 2004 compared with \$3.5 million for the third quarter of 2003. The 57% improvement from the third quarter of 2003 was primarily due to

the impact of the higher unit volumes and favorable pricing (totaling \$3.4 million), partially offset by increased manufacturing costs and higher freight and distribution expenses (totaling \$1.4 million).

RESULTS OF OPERATIONS - FIRST NINE MONTHS 2004 COMPARED WITH FIRST NINE MONTHS 2003

Overview

We recorded net income of \$46.6 million for the first nine months of 2004 compared with net income of \$41.4 million in the first nine months of 2003. The improved results for the first nine months of 2004 were attributable to higher operating income, partially offset by investment losses. Net income for the first nine months of 2003 included a \$1.0 million after-tax charge for the cumulative effect of a change in accounting principle from the adoption of Statement of Financial Accounting Standards, which we refer to as "SFAS," No. 143, "Accounting for Asset Retirement Obligations."

Net Sales. Net sales by business segment for the first nine months of 2004 and 2003 were:

	Nine Months Ended	
	October 3, 2004	Sept. 28, 2003

	(Millions)	
Specialty chemicals.....	\$ 533.0	\$ 470.4
Industrial chemicals.....	148.3	128.5
Synthetic elastomers.....	116.8	2.7
Mineral products.....	100.1	78.3

Net sales.....	\$ 898.2	\$ 679.9
	=====	=====

Net sales for the first nine months of 2004 were \$898.2 million compared with \$679.9 million in the first nine months of 2003. The \$218.3 million (32%) increase in sales resulted primarily from the synthetic elastomers business (\$116.8 million), acquired during the third quarter of 2003, in addition to higher unit volumes in all other business segments (totaling \$84.4 million). The favorable impact of the weaker U.S. dollar (\$25.8 million), primarily in Europe, also benefited sales.

Gross Margin. Our gross margin in the first nine months of 2004 was 32.4% compared with 34.8% in the first nine months of 2003. The overall margin was reduced due to the lower margin synthetic elastomers business which had a gross margin of 10.1% for the first nine months of 2004. The gross margin for the specialty chemicals segment increased to 44.5% in the first nine months of 2004 from 43.1% in the same period of 2003 as a result of the favorable impact of higher volumes and the weaker U.S. dollar, partially offset by unfavorable pricing. Also, the gross margin for the industrial chemicals segment increased to 11.5% in the first nine months of 2004 from 10.7% in the same period of 2003 due to higher unit volumes and manufacturing efficiencies, partially offset by the adverse impact of the stronger Euro on European-based manufacturing costs. The gross margin for the mineral products segment decreased to 24.9% from 26.2% in the first nine months of 2003 as a result of higher manufacturing costs.

Selling, General and Administrative. Selling, general and administrative expenses increased 15% in the first nine months of 2004 to \$152.1 million from \$131.7 million in the first nine months of 2003, however, as a percent of

sales, decreased to 16.9% from 19.4% in the first nine months of 2003, due mainly to the inclusion of operating expenses for the synthetic elastomers business, for which operating expenses represented only 5.5% of sales. The increase in selling, general and administrative expenses in the first nine months of 2004 related primarily to higher selling and distribution costs as a result of the higher sales levels.

Other operating charges. Other operating charges of \$1.5 million in the first nine months of 2003 represented a charge for compensation expense for stock option payments related to ISP's going private transaction in February 2003.

Operating Income. Operating income (loss) by business segment for the first nine months of 2004 and 2003 was:

	Nine Months Ended	
	October 3, 2004	Sept. 28, 2003
	(Millions)	
Specialty chemicals.....	\$ 121.6	\$ 96.7
Industrial chemicals.....	(2.3)	(5.3)
Synthetic elastomers.....	5.3	(1.2)
Mineral products.....	13.6	12.2
Total segment operating income.....	138.2	102.4
Unallocated corporate office items.....	(0.1)	0.4
Operating income.....	\$ 138.1	\$ 102.8
	=====	=====

Operating income for the first nine months of 2004 was \$138.1 million compared with \$102.8 million in the first nine months of 2003. Excluding the other operating charges discussed above, operating income increased 32% to \$138.1 million from \$104.3 million in the first nine months of 2003 (see "Non-GAAP Financial Measures" below).

Operating income for the specialty chemicals segment was \$121.6 million for the first nine months of 2004 compared with \$96.7 million in the first nine months of 2003. On a comparable basis, excluding the aforementioned charges pertaining to specialty chemicals, operating income for the segment improved 24% to \$121.6 million compared with \$97.8 million in the first nine months of 2003. The improved results were attributable to higher unit volumes in the personal care and performance chemicals product lines and an improved product mix and manufacturing efficiencies achieved in the fine chemicals product line. Operating income for the specialty chemicals segment in the first nine months of 2004 was also favorably impacted by the weaker U.S. dollar (\$13.0 million) and, to a lesser extent, by the contribution to income from the three specialty chemical niche acquisitions made during the first quarter of 2004 (see "-Liquidity and Financial Condition" below).

The industrial chemicals segment recorded an operating loss of \$2.3 million in the first nine months of 2004. Excluding the aforementioned other operating charges in the first nine months of 2003 pertaining to industrial chemicals, the operating loss in the first nine months of 2003 was \$5.1 million. The lower losses were attributable to higher unit volumes and manufacturing efficiencies, partially offset by the adverse impact of the stronger Euro on European-based manufacturing costs.

Operating income for the synthetic elastomers segment was \$5.3 million in the first nine months of 2004 compared with an operating loss of \$1.2 million

in the first nine months of 2003 after its acquisition when the business was in its start-up phase.

Operating income for the mineral products segment was \$13.6 million in the first nine months of 2004. On a comparable basis, excluding other operating charges in the first nine months of 2003 pertaining to mineral products, operating income was \$12.4 million for the first nine months of 2003. The improvement in operating income was due to the favorable impact of higher unit volumes and favorable pricing, partially offset by increased manufacturing costs and higher freight and distribution expenses.

Interest Expense. Interest expense for the first nine months of 2004 was \$58.3 million compared with \$57.8 million in the same period in 2003. The higher interest expense was attributable to higher average borrowings (\$1.4 million impact), partially offset by lower average interest rates (\$0.9 million impact), both as a result of the refinancing of our senior secured credit facility in April 2004 (see "-Liquidity and Financial Condition" below).

Investment Income (Loss). Investment losses in the first nine months of 2004 were \$2.4 million compared with investment income of \$21.5 million in the first nine months of 2003. The investment losses resulted from higher unrealized portfolio losses, partially offset by higher realized gains. Investment losses in the first nine months of 2004 include a \$5.5 million other than temporary impairment charge related to an available-for-sale equity security held in our investment portfolio.

Other Expense, net. Other expense, net, comprises foreign exchange gains/losses resulting from the revaluation of foreign currency-denominated accounts receivable and payable as a result of changes in exchange rates, and other nonoperating items of expense. Other expense, net, was \$6.5 million in the first nine months of 2004 compared with \$2.1 million in the first nine months of 2003. The higher expense in the first nine months of 2004 was due to unfavorable foreign exchange.

Income Taxes. In the first nine months of 2004, we recorded a provision for income taxes of \$24.2 million. Our effective tax rate for the first nine months of 2004 and 2003 was 34.2% and 34.1%, respectively.

Business Segment Review

A discussion of operating results for each of our business segments follows. We operate our business through four reportable business segments:

specialty chemicals; industrial chemicals; synthetic elastomers; and mineral products. The operating income for the first nine months of 2003 for each business segment discussed below is adjusted for the non-GAAP financial measures in the table below.

Non-GAAP Financial Measures

The business segment review below and the discussion of operating income above contain information regarding non-GAAP financial measures contained within the meaning of Item 10 of Regulation S-K promulgated by the Securities and Exchange Commission. As used herein, "GAAP" refers to U.S. generally accepted accounting principles. We use non-GAAP financial measures to eliminate the effect of certain other operating gains and charges on reported operating income. Management believes that these financial measures are useful to bondholders and financial institutions because such measures exclude

transactions that are unusual due to their nature or infrequency and therefore allow bondholders and financial institutions to more readily compare our company's performance from period to period. Management uses this information in monitoring and evaluating our company's performance and the performance of individual business segments. The non-GAAP financial measures included herein have been reconciled to the most directly comparable GAAP financial measure as is required under Item 10 of Regulation S-K regarding the use of such financial measures. These non-GAAP financial measures should be considered in addition to, and not as a substitute, or superior to, operating income or other measures of financial performance in accordance with U.S. generally accepted accounting principles.

	Nine Months Ended	
	October 3, 2004	September 28, 2003
	(Millions)	
Reconciliation of non-GAAP financial measures:		
Operating income per GAAP.....	\$ 138.1	\$ 102.8
Non-GAAP adjustments:		
Add: Other operating charges(1).....	-	1.5
Operating income as adjusted.....	\$ 138.1	\$ 104.3
	=====	=====
Supplemental Business Segment Information:		
Operating income (loss):		
Operating income per GAAP - Specialty Chemicals....	\$ 121.6	\$ 96.7
Non-GAAP adjustments (1).....	-	1.1
Operating income - Specialty Chemicals as adjusted..	\$ 121.6	\$ 97.8
	=====	=====
Operating loss per GAAP - Industrial Chemicals.....	\$ (2.3)	\$ (5.3)
Non-GAAP adjustments (1).....	-	0.2
Operating loss - Industrial Chemicals as adjusted..	\$ (2.3)	\$ (5.1)
	=====	=====
Operating income (loss) per GAAP - Synthetic Elastomers.....	\$ 5.3	\$ (1.2)
Non-GAAP adjustments (1).....	-	-
Operating income (loss)- Synthetic Elastomers as adjusted.....	\$ 5.3	\$ (1.2)
	=====	=====
Operating income per GAAP - Mineral Products.....	\$ 13.6	\$ 12.2
Non-GAAP adjustments (1).....	-	0.2
Operating income - Mineral Products as adjusted....	\$ 13.6	\$ 12.4
	=====	=====
Total segment operating income as adjusted.....	\$ 138.2	\$ 103.9
Unallocated corporate office per GAAP.....	(0.1)	0.4
Operating income as adjusted.....	\$ 138.1	\$ 104.3
	=====	=====

(1) Non-GAAP adjustments for the first nine months of 2003 represent an other operating charge of \$1.5 million for stock option payments related to ISP's going private transaction.

Specialty Chemicals

Sales in the first nine months of 2004 were \$533.0 million compared with \$470.4 million for the same period in 2003. The 13% increase in sales was mainly attributable to higher unit volumes (\$52.0 million), primarily in the personal care and performance chemicals product lines. The favorable impact of

the weaker U.S. dollar (\$19.3 million), primarily in Europe, also benefited sales. The personal care product line experienced strong volume growth in each of its skin care and oral care markets in Europe and North America. Sales for the performance chemicals, food and personal care product lines also benefited from the three acquisitions made during the first quarter of 2004.

Operating income for the specialty chemicals segment was \$121.6 million for the first nine months of 2004 compared with \$96.7 million in the first nine months of 2003. On a comparable basis, excluding the aforementioned other operating charges pertaining to specialty chemicals, operating income for the segment improved 24% to \$121.6 million compared with \$97.8 million in the first nine months of 2003. The improved results were attributable to the favorable effect of higher unit volumes (\$31.3 million), primarily in the personal care and performance chemicals product lines, and an improved product mix and manufacturing efficiencies achieved in the fine chemicals product line. Operating income for the specialty chemicals segment in the first nine months of 2004 was also favorably impacted by the weaker U.S. dollar (\$13.0 million) and, to a lesser extent, from the contribution to income from the three acquisitions made during the first quarter of 2004. Partially offsetting these favorable factors was unfavorable pricing (\$8.7 million), higher manufacturing costs in product lines other than fine chemicals (totaling \$6.4 million) and higher selling and distribution expenses (\$7.4 million) resulting from the higher sales levels.

Industrial Chemicals

Sales in the first nine months of 2004 were \$148.3 million compared with \$128.5 million in the first nine months of 2003. The 15% increase in sales was attributable to higher unit volumes (\$12.7 million) and the favorable effect of the weaker U.S. dollar (\$6.5 million).

The industrial chemicals segment recorded an operating loss of \$2.3 million in the first nine months of 2004. Excluding the aforementioned other operating charges in the first nine months of 2003 pertaining to industrial chemicals, the operating loss in the first nine months of 2003 was \$5.1 million. The lower losses were attributable to the higher unit volumes and manufacturing efficiencies (totaling \$6.2 million), partially offset by the adverse impact of the stronger Euro on European-based manufacturing costs (\$4.2 million).

Synthetic Elastomers

Sales for the synthetic elastomers business segment were \$116.8 million in the first nine months of 2004 compared with \$2.7 million in the portion of the first nine months of 2003 after the date of its acquisition. The synthetic elastomers business recorded operating income of \$5.3 million in the first nine months of 2004 compared with an operating loss of \$1.2 million in the first nine months of 2003 after its acquisition when the business was in its start-up phase.

Mineral Products

Sales for the Mineral Products segment for the first nine months of 2004 were \$100.1 million compared with \$78.3 million for the first nine months of 2003. The 28% increase was due to higher unit volumes (\$19.6 million) as a result of industry-wide growth and included 24% higher sales to BMCA.

Operating income for the mineral products segment was \$13.6 million in the first nine months of 2004. On a comparable basis, excluding other operating charges in the first nine months of 2003 pertaining to mineral products, operating income was \$12.4 million for the first nine months of 2003. The 10% improvement from the third quarter of 2003 was primarily due to the impact of the higher unit volumes and favorable pricing (totaling \$5.9 million), partially offset by increased manufacturing costs and higher freight and distribution expenses (totaling \$4.7 million).

LIQUIDITY AND FINANCIAL CONDITION

Cash Flows and Cash Position

During the first nine months of 2004, our net cash outflow before financing activities was \$146.8 million, including \$242.9 million of cash utilized for net purchases of available-for-sale securities and the reinvestment of \$85.1 million for capital programs and acquisitions, partially offset by \$181.2 million of cash generated from operations.

Operating Activities. Net cash generated from operating activities totaled \$181.2 million for the first nine months of 2004 compared with \$193.8 million in the first nine months of 2003. The variation in cash flows from operating activities was mainly attributable to activity related to purchases and sales of trading securities in connection with our investment portfolio. In the first nine months of 2004, there was a cash inflow of \$57.8 million from net sales of trading securities, while in the first nine months of 2003, there was a cash inflow of \$166.0 million from net sales of trading securities.

Cash from operations for the first nine months of 2004 also included a cash investment of \$41.9 million in additional working capital, including a \$49.5 million increase in receivables as a result of higher sales, partially offset by a \$3.5 million decrease in inventories and a \$3.9 million net increase in payables and accrued liabilities. Operating activities also included a \$4.7 million cash outflow from related party transactions, principally due to increased receivables from BMCA as a result of higher sales of mineral products to BMCA.

Investing Activities. Net cash used in investing activities in the first nine months of 2004 totaled \$327.9 million, primarily attributable to \$242.9 million of cash used for net purchases of available-for-sale securities for our investment portfolio. Although from time to time we may continue to make investments in public companies, we no longer intend to pursue our prior investment strategy which included investments primarily in international and domestic securities of companies involved in acquisition or reorganization transactions. As a result, we anticipate that in 2005 investment income will be significantly lower than historical experience.

Capital expenditures in the first nine months of 2004 were \$56.5 million compared with \$43.7 million in the first nine months of 2003. During the first nine months of 2004, ISP Chemco completed three acquisitions in Europe to further enhance our global specialty chemicals business. The purchase price of these acquisitions totaled \$27.3 million in cash.

Financing Activities. Net cash provided by financing activities in the first nine months of 2004 totaled \$56.1 million and included \$9.7 million from an increase in short-term borrowings, \$31.2 million from a refinancing of ISP

Chemco's senior secured credit facilities and \$20.7 million in borrowings by ISP Synthetic Elastomers LP under a credit facility entered into in April 2004 (see discussion below).

On April 2, 2004, ISP Chemco and three of its wholly owned subsidiaries amended and restated its June 2001 \$450.0 million senior secured credit facilities, which we refer to as the "Senior Credit Facilities" in order to extend the term, increase future flexibility and reduce the effective interest rate on borrowings. The Senior Credit Facilities provide a \$250.0 million term loan with a maturity in March 2011, which replaced the \$225.0 million term loan that was due to mature in June 2008. In connection therewith, ISP Chemco borrowed an additional \$31.2 million to bring the outstanding balance of the term loan to \$250.0 million. The Senior Credit Facilities reduced the margin-based interest rate for term loan borrowings and amended financial covenant ratios, including the elimination of the minimum adjusted net worth covenant.

On April 15, 2004, the \$225.0 million revolving credit facility under the Senior Credit Facilities, which was to terminate in June 2006, was reduced to \$200.0 million, including a borrowing capacity not in excess of \$50.0 million for letters of credit, and the maturity was extended to April 15, 2009. In addition, the margin-based interest rate for revolving credit borrowings was reduced.

In April 2004, ISP Synthetic Elastomers LP entered into a \$25.0 million financing agreement, which we refer to as the "Credit Facility," which can be increased to \$35.0 million at our option. The initial borrowings under the Credit Facility were primarily used to partially repay intercompany advances and for working capital purposes. The Credit Facility has a maturity date of April 13, 2009, subject to certain conditions, and is secured by a lien upon substantially all of the assets of ISP Synthetic Elastomers LP. Availability under the Credit Facility is based upon Eligible Accounts Receivable and Eligible Inventory, as defined in the Credit Facility, and includes a borrowing capacity not in excess of \$10.0 million for letters of credit. The Credit Facility bears interest at a floating rate based upon the Prime Rate or LIBOR, each as defined in the Credit Facility. The Credit Facility does not contain any required financial covenants as long as a minimum availability requirement is met. Borrowings outstanding under the Credit Facility, which are included in long-term debt, amounted to \$20.7 million at October 3, 2004.

As a result of the foregoing factors, cash and cash equivalents decreased by \$90.8 million during the first nine months of 2004 to \$66.8 million. In addition, the consolidated balance sheet reflects \$318.4 million of trading and available-for-sale securities at October 3, 2004.

Current Maturities of Long-Term Debt

As of October 3, 2004, our current maturities of long-term debt, scheduled to be repaid during the twelve month period ended September 2005, totaled \$4.4 million, including \$2.5 million related to the term loan under the Senior Credit Facilities.

Related Party Transaction

In August 2004, we entered into a loan agreement with ISP pursuant to which we will allow ISP to borrow from time to time up to \$350.0 million with interest at the rate of 3.74% per annum on the outstanding principal balance.

Commencing in 2005, payment of interest is due in arrears on the outstanding principal balance on January 31 and July 31 for each year thereafter. This facility shall terminate August 2007, unless terminated earlier. ISP has also agreed to enter into a loan agreement as the lender with an entity controlled by Samuel J. Heyman on terms substantially the same as the loan agreement between us and ISP. While, as of October 3, 2004, there were no borrowings outstanding under either facility, during the third quarter there was an outstanding balance as of any one time of as much as \$27.4 million.

Operating Lease Obligation

We entered into an operating lease in 1998 for an equipment sale-leaseback transaction related to equipment at our Freetown, Massachusetts facility. The lease had an initial term of four years and, at our option, up to three one-year renewal periods. The third and final renewal option was exercised during the first quarter of 2004. The lease provides for a substantial guaranteed payment by us, adjusted at the end of each renewal period, and includes purchase and return options at fair market values determined at the inception of the lease. We have the right to exercise a purchase option with respect to the leased equipment, or the equipment can be returned to the lessor and sold to a third party. It is our current intention to exercise the purchase option and to maintain the Freetown plant and business, and we will be evaluating financing alternatives in that regard. Upon exercise of the purchase option in the first quarter of 2005, we will be obligated to pay a fixed purchase price of \$33.6 million.

Contractual Obligations

A contract with a multinational supplier to supply a substantial amount of our acetylene needs to our Texas City, Texas facility expired in March 2004. As a result, we reduced our acetylene requirements at the Texas City plant by 50% through shifting production of acetylene-consuming products to our Calvert City, Kentucky plant. We also entered into a long-term supply contract for the remaining Texas City plant requirements with a local producer. Under this contract, we are obligated to purchase specified quantities of acetylene through the end of 2013. Pricing under this contract is on a fixed basis with escalators related to changes in the Producer Price Index.

We also have an acetylene supply contract for our requirements of acetylene delivery via pipeline to our Calvert City facility. The current term of this contract expires December 31, 2009 and allows us, at our sole option, to extend the agreement for two additional terms of five years each. We are required by the contract to pay a monthly non-cancelable facility fee. Pricing under the contract is on a fixed basis with escalators related to changes in the Producer Price Index.

The annual unconditional purchase obligation related to the long-term acetylene supply contract at the Texas City plant, together with the non-cancelable facility fee associated with the Calvert City plant acetylene contract is \$5.1 million.

Contingencies

See Note 14 to consolidated financial statements for information regarding contingencies.

New Accounting Standards

In December 2003, the Financial Accounting Standards Board issued a revised FASB Interpretation No. 46R, which we refer to as "FIN 46R," "Consolidation of Variable Interest Entities," replacing FIN 46 which had originally been issued in January 2003. FIN 46R addresses how a business enterprise should evaluate whether it has a controlling financial interest in an entity through means other than voting rights and accordingly should consolidate the entity. We will be required to apply FIN 46R to variable interests in variable interest entities created after December 31, 2003. Our company does not currently have an interest in a variable interest entity. Therefore, FIN 46R will not have an immediate impact on our consolidated financial statements.

In May 2004, the FASB issued FASB Staff Position, which we refer to as "FSP," No. FAS 106-2 to provide guidance on accounting for the effects of the Medicare Prescription Drug, Improvement and Modernization Act of 2003, which we refer to as the "Act" for employers that sponsor postretirement health care plans which provide prescription drug benefits. In addition, the FSP requires those employers to provide certain disclosures in their financial statements regarding the effect of the Act and the related subsidy on postretirement health obligations and net periodic postretirement benefit cost. We adopted the provisions of FSP FAS No. 106-2 effective for the quarterly period beginning July 5, 2004. The impact on our financial statements was insignificant.

* * *

Forward-looking Statements

This Quarterly Report on Form 10-Q contains both historical and forward-looking statements. All statements other than statements of historical fact are, or may be deemed to be, forward-looking statements within the meaning of section 27A of the Securities Act of 1933 and section 21E of the Securities Exchange Act of 1934. These forward-looking statements are only predictions and generally can be identified by use of statements that include phrases such as "believe", "expect", "anticipate", "intend", "plan", "foresee" or other words or phrases of similar import. Similarly, statements that describe our objectives, plans or goals also are forward-looking statements. Our operations are subject to certain risks and uncertainties that could cause actual results to differ materially from those contemplated by the relevant forward-looking statement. The forward-looking statements included herein are made only as of the date of this Quarterly Report on Form 10-Q and we undertake no obligation to publicly update such forward-looking statements to reflect subsequent events or circumstances. No assurances can be given that projected results or events will be achieved.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Reference is made to Management's Discussion and Analysis of Financial Condition and Results of Operations in our Annual Report on Form 10-K for the fiscal year ended December 31, 2003 for a discussion of "Market-Sensitive Instruments and Risk Management." As of December 31, 2003, equity-related financial instruments employed by us to reduce market risk included long contracts with a notional value of \$282.1 million and short contracts with a notional value of \$201.7 million. At October 3, 2004, the notional value of long contracts was \$101.5 million and there were no short contracts. Such instruments are marked-to-market each month, with unrealized gains and losses included in the results of operations. The unrealized gains on equity-related long contracts at December 31, 2003 and October 3, 2004 were \$35.6 and \$5.2 million, respectively. The unrealized gains on equity-related short contracts was \$1.5 million at December 31, 2003.

During 2003, we entered into interest rate swaps with a notional value of \$23.0 million in order to economically hedge interest rate risk associated with investments in securities for which the market value is correlated with interest rate changes. The interest rate swaps are marked-to-market each month, with unrealized gains and losses included in the results of operations. At December 31, 2003 and October 3, 2004, the unrealized gains related to the interest rate swaps were \$48,000 and \$165,000, respectively.

ITEM 4. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures: Our management, with the participation of our Chief Executive Officer (principal executive officer) and Vice President and Controller (principal financial officer), conducted an evaluation of the effectiveness of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) as of the end of the period covered by this report. Based on this evaluation, our Chief Executive Officer and Vice President and Controller have each concluded that, as of the end of such period, our disclosure controls and procedures are effective in recording, processing, summarizing and reporting, on a timely basis, information required to be disclosed by us in the reports filed, furnished or submitted under the Exchange Act.

Internal Control Over Financial Reporting: There have not been any changes in our internal control over financial reporting during the fiscal quarter to which this report relates that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II

OTHER INFORMATION

ITEM 6. EXHIBITS

Exhibits:

Exhibit Number

31.1 Rule 13a-14(a)/Rule 15d-14(a) Certification of the Principal Executive Officer.

31.2 Rule 13a-14(a)/Rule 15d-14(a) Certification of the Principal Financial Officer.

32.1 Certification pursuant to 18 U.S.C. Section 1350.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

INTERNATIONAL SPECIALTY HOLDINGS INC.

DATE: November 17, 2004

BY: /s/Sunil Kumar

Sunil Kumar
President and Chief Executive Officer
(Duly Authorized Officer)

DATE: November 17, 2004

BY: /s/Kenneth M. McHugh

Kenneth M. McHugh
Vice President and Controller
(Principal Financial and Chief
Accounting Officer)

CERTIFICATION

I, Sunil Kumar, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of International Specialty Holdings Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 17, 2004

/s/ Sunil Kumar

Name: Sunil Kumar

Title: President and Chief Executive Officer

CERTIFICATION

I, Kenneth M. McHugh, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of International Specialty Holdings Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 17, 2004

/s/ Kenneth M. McHugh

Name: Kenneth M. McHugh

Title: Vice President and Controller

EXHIBIT 32.1

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO**

SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report on Form 10-Q of International Specialty Holdings Inc. (the "Company") for the quarterly period ended October 3, 2004 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), Sunil Kumar, as President and Chief Executive Officer of the Company and Kenneth M. McHugh, as Vice President and Controller of the Company, each hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of his knowledge and belief:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Sunil Kumar

Name: Sunil Kumar
Title: President and Chief Executive Officer

Date: November 17, 2004

/s/ Kenneth M. McHugh

Name: Kenneth M. McHugh
Title: Vice President and Controller

Date: November 17, 2004

This certification accompanies the Report pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by the Sarbanes-Oxley Act of 2002, be deemed filed by the Company for purposes of Section 18 of the Securities Exchange Act of 1934, as amended.

End of Filing

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